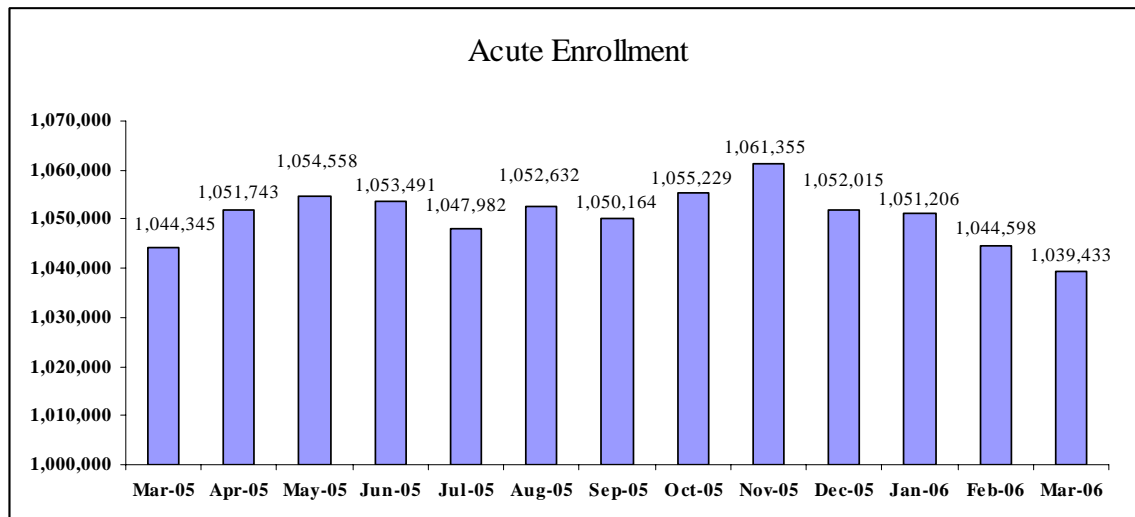


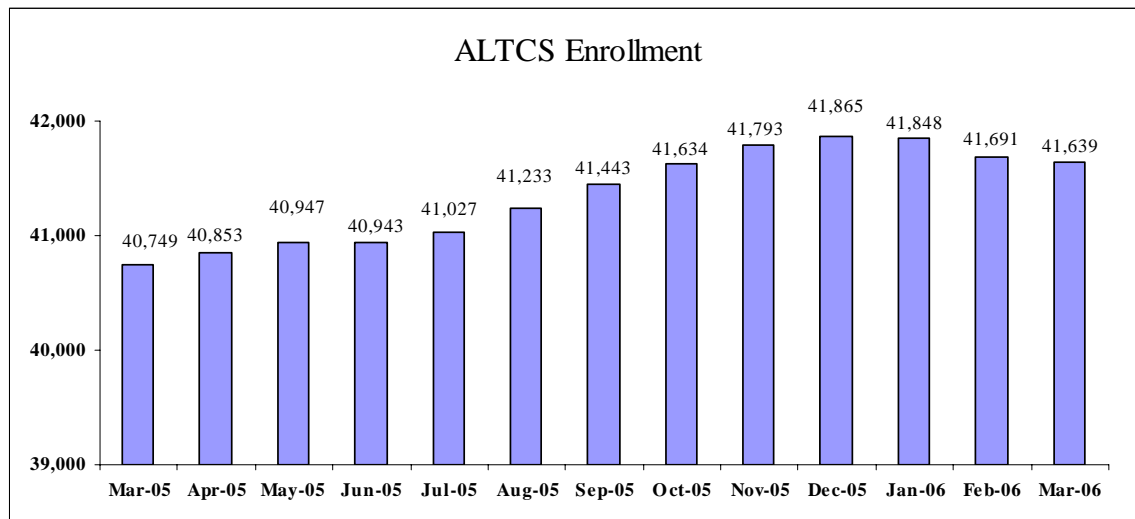
AHCCCS QUARTERLY PROGRESS REPORT FOR JANUARY 1, 2006 THROUGH MARCH 31, 2006

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AHCCCS Population





Organization/Key Personnel Changes

Dianne Ross retired as the Assistant Director of the Division of Member Services at the end of December 2005. Linda Skinner will serve as the interim Assistant Director until the position is permanently filled.

Program Changes

On January 1, 2006, the Medicare Prescription Drug Coverage Program, also known as Medicare Part D began offering new drug coverage to help pay for most of the prescriptions AHCCCS members need. AHCCCS will continue to pay for other health care costs.

On January 13, 2006, Executive Order 2006-01 was issued. Executive Order 2006-05 extended Executive Order 2006-01 until March 15, 2006. This order allows Health Crisis Funds to be used to assist Arizonans with receiving the prescription drugs they need due to problems with federal implementation of Medicare Part D have a significant impact on the agency. Staff throughout the agency have made this a priority and are working to ensure that members in qualifying situations receive appropriate coverage.

AHCCCS submitted its 1115 Waiver Renewal Proposal on March 13, 2006. In the proposal, AHCCCS summarizes key elements of its current program and lists the current mechanisms in place to obtain data and measure the effects, impacts and outcomes of the waiver demonstration. An updated Employer Sponsored Insurance Proposal was included with the waiver renewal proposal. Arizona also sought expenditure authority to reimburse spouses of members of the Arizona Long Term Care System (ALTCS) to serve as caregivers. Other outstanding proposals included a proposal to implement premiums for ALTCS children whose family income exceeds 400% FPL, and a proposal to disregard interest income during eligibility determinations. In addition, AHCCCS clarified certain provisions implemented under the Balanced Budget Act related to choice in managed care in hopes to maintain the current proven model.

Quality Improvement

The following quality improvement deliverable was submitted during this quarter:

- Quarterly Quality Improvement Initiative Report

Legal

AHCCCS v. CMS (IHS Referral Issue) – The US District Court for Arizona ruled in favor of the State on April 24, 2005. A three-judge panel of the Eighth Circuit Court of Appeals ruled in favor of CMS three days later. CMS has indicated intent to appeal the decision of the US District Court for Arizona. North and South Dakota have asked the Eighth Circuit Court of Appeals to review its decision.

The federal government filed a Notice of Appeal to the Ninth Circuit Court of Appeals in July 2005. Briefing was completed in the first quarter of 2006, and the case will be scheduled for oral argument.

Ball v. Rodgers (HCBS class action) –

In January 2006, the Plaintiffs filed a Motion for Enforcement alleging that AHCCCS was not complying with the Judge's Order. Later that month, AHCCCS filed a response and also filed a cross motion to modify the injunction, requesting that the Judge acknowledge the Agency's current level of compliance as acceptable and maintain the status quo until the Ninth Circuit issues a decision. In March 2006 AHCCCS filed a Motion to Strike declarations made by Plaintiffs due to their failure to timely disclose evidence. On March 31, 2006, AHCCCS filed its monthly report of gaps in services for the month of February 2006.

Padilla v. Rodgers (ESRD class action) – CMS was brought back in as a defendant and federal payment of disallowed amounts must be made. AHCCCS has been working with the plaintiffs and CMS counsel on a consent decree - a stipulated settlement agreement that will be enforceable by the court. Most issues have been resolved. Plaintiffs have agreed to a clause that excuses performance on the part of the State if there is a change in federal law, but are reluctant to agree to excusing performance based on a nation-wide change in federal policy.

In March 2006, the parties approved a proposed consent decree which will extend for 2 years. The Plaintiffs forwarded the proposed settlement to the Court for approval, but the Court has not scheduled any proceedings to approve the settlement. However, AHCCCS is in the process of developing notices in anticipation of the upcoming fairness hearing.

Newton-Nations, et al. v. Rodgers (Co-pay class action) – Motions for summary judgment are pending with the court. No change to report.

Samaritan Health Systems v. AHCCCS (Outlier Litigation) – No change to report.

Ekloff v Rogers In March 2006, the Court granted the Plaintiffs' Motion for Summary Judgment and entered a final judgment and permanent injunction requiring provision of incontinent briefs to disabled children for preventive purposes. On March 14, 2006, AHCCCS filed a Motion for Clarification and to stay implementation of the injunction pending appeal to the Ninth Circuit Court of Appeals. On March 26, 2006 AHCCCS filed its Notice of Appeal in the Ninth Circuit. On April 18, 2006, the District Court Judge stayed the injunction for 60 days and clarified his Order. AHCCCS filed its Opening Brief in the Court of Appeals on May 10, 2006. Settlement discussions later commenced through the Offices of the Mediation Department of the Ninth Circuit.

Legislation

AHCCCS is running three proposals for the 2006 legislative session: Arizona 2-1-1 and two third party liability proposals. The Arizona 2-1-1 legislation provides a \$1.8 million appropriation to AHCCCS for administration of Arizona 2-1-1. Arizona 2-1-1 provides a web based and call-center based information system offering statewide disaster response, homeland security and health and human service information to the public and community organizations that provide assistance to the public.

One of the third party liability bills requires the personal representative of an AHCCCS member to notify AHCCCS of the member's estate or property within 3 months after the member's death if the member was at least 55 and AHCCCS has not already filed a statement or claim in the estate proceedings. The other third party liability bill requires an AHCCCS member or legal representative to provide written notice to the AHCCCS administration within 10 calendar days after the start of civil action or other proceeding to allow access to recover any related costs to the program. AHCCCS is monitoring a variety of other bills that could impact the agency.

State Plan

Included at the end of the report is a tracking document that provides the dates that Title XIX and Title XXI State Plan Amendments were submitted and approved.

AHCCCS Contractors

AHCCCS issued a Request for Proposals (RFP) for statewide Arizona Long Term Care System contracts in February of 2006. An internal work group is working to discuss the details of the process.

Upcoming Quarter

AHCCCS will continue working with CMS on the Waiver Renewal Proposal submitted in March.

State Plan Amendments Title XIX
Filed during Quarter 2 (January 1, 2006-March 31, 2006) in 2006

SPA#	Description	Filed	Effective Date
06-001	Dental Hygienists	3/20/06	1/1/06